Achievable

LIFE & HEALTH INSURANCE DUMP SHEET

Concepts and contracts

General insurance concepts

- Risk types:
  - **Pure:** only loss possible; insurable
  - **Speculative:** loss or gain possible; not insurable (e.g., gambling, investing)
- How to manage risk:
  - **Avoid:** eliminate the risk entirely (e.g., don't drive)
  - **Reduce:** lower the chance or severity of loss (e.g., healthy habits)
  - **Retain:** accept and pay for the risk yourself (e.g., deductibles)
  - **Share:** spread the risk with others (e.g., business partners)
  - **Transfer:** shift the risk to another party (e.g., buying insurance)
- Law of large numbers:
  - The larger the group, the more accurately insurers can predict losses and set premiums — the statistical foundation of insurance
- Insurable interest:
  - A financial or personal stake in the insured (e.g., self, family, business)
  - For life insurance, it must exist at application, not at the claim
- **Free look period:** 10 days from delivery (20 if replacing coverage) to return a new policy for a full refund

Insurance contracts

- Four essential elements:
  - **Offer and acceptance:** the applicant offers by applying; the insurer accepts as submitted or counteroffers (e.g., a rated policy)
  - **Consideration:** the exchange of value — the applicant's premium for the insurer's promise to pay claims
  - **Legal capacity:** both parties must be legally able to enter the contract
  - **Legal purpose:** the contract must be for a legal purpose (no fraudulent intent)
- Key features:
  - **Adhesion:** "take it or leave it" — the insurer sets the terms
  - **Aleatory:** unequal exchange of value (small premium for a large benefit)
  - **Unilateral:** only the insurer makes a binding promise
  - **Conditional:** conditions must be met to receive benefits
- Utmost good faith:
  - Both parties must act honestly and rely on each other's representations
- Representations vs. warranties:
  - **Representation:** a statement believed true to the best of the applicant's knowledge
  - **Warranty:** a statement guaranteed to be true; if false, the policy is void
  - **Misrepresentation:** a false statement; if intentional, it may void the contract
- Doctrine of adhesion:
  - Ambiguous terms are interpreted in favor of the insured
- Principle of indemnity:
  - Insurance restores the insured to their financial position before the loss; no opportunity for gain